

STEPS IN THE PROCESS:

- Step 1 Determine beginning and end of year booked component costs for each account. Aggregated beginning and end of year component costs for each account reflect data reported on ARMIS 43-02, Table B-1, Columns ab and af, respectively. Pre-USOA data ties to the company's Form M reports. The individual beginning and end of year component costs are derived based on special studies performed by the company, utilizing accounting reporting codes (e.g. EXTCs) and company financial systems.
- Step 2 For each account, determine component distributions (weights) based on the dollars in that account (as derived in Step 1) devoted to each component.
- Step 3 For each account, determine year-over-year growth rate of each component: The contract labor price growth rate is based on Bureau of Labor Statistics Price Indexes (e.g. Employment Cost, CPIW). Labor growth rates reflect the year-over-year change in actual salary, wage and fringe benefit costs. Labor costs are derived from company subsidiary ledgers which support the ARMIS 43-02 report. Growth rates for material costs in each account are based on special studies. One growth rate is calculated for each labor component (contract and company) and used in every account.
- Step 4 Calculate the weighted average growth rate of each subaccount utilizing the component weights (Step 3) and growth rates (Step 3). See mathematical example below that yields a growth rate of 7.78% for account A.
- Step 5 Calculate the weighted average growth rate of each account utilizing the subaccount growth rates (developed in step 4). See the mathematical example above that yields a 4.96% growth rate for account C below.
- Step 6 Determine current year plant index by multiplying the weighted average growth rate of each account (or subaccount) by the prior year plant index.

Suppose, for example, that component costs (based on the most recently updated data) in subaccount A, which is company labor intensive, are \$1,000 for materials, \$8,500 for company labor, and \$500 for contract labor -- for a total of \$10,000 in account A. Then, 10% of the booked costs are for materials, 85% for company labor and 5% contract labor. Suppose further that in year Y materials costs in that subaccount are growing at a rate of 4%, company labor costs at 8.5% and contract labor costs at 3%. Then, the growth rate for that subaccount is $(10\% \times 4\%) + (85\% \times 8.5\%) + (5\% \times 3\%)$ -- for a growth rate in year Y for account A of 7.78%. Also in year Y subaccount B is growing at a rate of 3.55%, and A and B are the subaccounts of account C. If the end of year book costs (as reported in company subsidiary ledgers) for subaccounts A and B are \$11,000 and \$22,000, respectively, then A is $33 \frac{1}{3}\%$ of account C and B is $66 \frac{2}{3}\%$ of account C. The growth rate of account C in year Y is $(33 \frac{1}{3}\% \times 7.78\%) + (66 \frac{2}{3}\% \times 3.55\%)$, or 4.96%.

Calculating the index in year Y for account A uses the index for the prior year and grows it by 7.78%. If, for example, account A's index was 130.0 for the prior year, then the account's index for year Y is 130.0 times 1.0778 or 140.114, which would round to 140.1.

Table 1
Competitive Access Providers:
Summary by State and City as of May 1994

STATE	EXISTING CITY/AREA	CAP	PLANNED CITY/AREA	CAP
ALABAMA	Andalusia Anniston Birmingham Duthan Gadsden Leeds Ozark Pell City	Deltacom Interstate Fibernet Metrex, Privacom, Interstate FiberNet Deltacom Interstate Fibernet Interstate Fibernet Deltacom Interstate Fibernet	Birmingham Huntsville Mobile Montgomery	American Comm. Svcs. (ACSI) American Comm. Svcs. (ACSI) American Comm. Svcs. (ACSI) American Comm. Svcs. (ACSI)
ARIZONA	Phoenix	Intelcom, City Signal, TCG, Electric Lightwave	Phoenix	MIS
ARKANSAS	Little Rock	Entergy		
CALIFORNIA	Bel Air Beverly Hills Burbank Century City Culver City East Los Angeles El Monte El Segundo Fremont Glendale Hollywood LA Airport Lakewood Lancaster Lodi Long Beach Los Angeles Los Gatos Milpitas Morgan Hill Oakland Rancho Cordova Sacramento San Bernardino San Diego San Francisco San Jose	MFS MFS, TCG MFS, TCG MFS, TCG TCG, Bay Area Teleport Bay Area Teleport TCG MFS, TCG TCG TCG, Bay Area Teleport MFS, TCG MFS, TCG, Bay Area Teleport Linkatel Bay Area Teleport Bay Area Teleport Linkatel MFS, TCG, Bay Area Teleport Bay Area Teleport MFS, TCG Bay Area Teleport TCG, Bay Area Teleport Bay Area Teleport Phoenix Fiberlink Bay Area Teleport Electric Lightwave, Linkatel, Time-Warner MFS, TCG, Bay Area Teleport MFS	Anaheim Burlingame Concord Cupertino Cypress Foster City Irvine Kearney Mesa Latayette La Jolla Long Beach Menlo Park Millbrae Mission Valley Mountain View Newport Beach Palo Alto Pleasanton Rancho Bernardo Rancho Cordova Redwood City Sacramento San Bruno San Carlos San Mateo Santa Ana Santa Monica	Linkatel MFS Phoenix Fiberlink MFS Linkatel MFS Linkatel Linkatel, TCG, Time-Warner TCG Linkatel, TCG, Time-Warner Linkatel, MIS MFS MFS Linkatel, Time-Warner MFS Linkatel MFS, TCG TCG Time-Warner Electric Lightwave MFS Electric Lightwave MFS MFS MFS MFS Linkatel TCG

Table 1
Competitive Access Providers:
Summary by State and City as of May 1994

STATE	EXISTING CITY/AREA	CAP	PLANNED CITY/AREA	CAP
CALIFORNIA (cont...)	Santa Barbara Santa Clara Santa Monica Sherman Oaks Sunnymead Sunnyvale Thousand Oaks Torrance Van Nuys West Hollywood Westwood Woodland Hills	Wiltel MFS, TCG MFS MFS Bay Area Teleport MFS Bay Area Teleport Linkatel Bay Area Teleport MFS, TCG MFS, TCG TCG	Sorrento Mesa Walnut Creek	Linkatel, TCG, TCG
COLORADO	Colorado Springs Denver Fort Collins Pueblo	IntelCom TCG, IntelCom, Jones Lightwave, MFS IntelCom IntelCom	Boulder	IntelCom
CONNECTICUT	Hartford Menden Meriden	MFS American Lightwave American Lightwave		
DELAWARE	Wilmington	Delaware Lightwave (MFS), Locate	Wilmington	MFS, Eastern TeleLogic
DIST. OF COL.	Washington DC	MFS, Locate		
FLORIDA	Altamonte Springs Boyton Beach Delray Beach Fort Lauderdale Jacksonville Lakeland Melbourne Miami Orlando St. Petersburg Tallahassee Tampa West Palm Beach	Time-Warner Locate Locate TCG Intermedia, AlterNet, Jacksonville Teleport Intermedia FiberCap Intermedia, TCG Intermedia Intermedia, Wiltel, Paragon Cable, Jones Lgt. Intermedia Intermedia, Jones Lightwave TCG	Brandon Clearwater Ft. Lauderdale Jacksonville Lakeland Manatee County Miami Orlando Pensacola St. Petersburg Sarasota Tampa West Palm Beach	FL Digital Media Partners MFS, Wiltel, Florida Dig. Media Partners, ICI MCI Metro/AT&T, Amer. Comm. Svcs. (ACSI) American Comm. Svcs. (ACSI) People's Cable Paragon Cable, Time-Warner MCI Metro/AT&T, ACSI, MFS American Comm. Svcs. (ACSI) American Comm. Svcs. (ACSI) MFS, FL Dig. Media Partners, Time-Warner Intermedia MFS, Wiltel, FL Dig. Media Partners, Time-Warner American Comm. Svcs. (ACSI)

Table 1
Competitive Access Providers:
Summary by State and City as of May 1994

STATE	EXISTING CITY/AREA	CAP	PLANNED CITY/AREA	CAP
GEORGIA	Atlanta Augusta Columbus LaGrange Newnan Savannah	MFS, Jones Lgt., MCI Metro/ATS, ATI, Interstate FiberNet Jones Interconnectable Interstate FiberNet Interstate FiberNet Interstate FiberNet PalmettoNet	Albany Atlanta Athens Augusta Macon Savannah	American Comm Svcs (AC SI) AC SI, MCI Metro/ATS, FiberSouth American Comm Svcs (AC SI) American Comm Svcs (AC SI) American Comm Svcs (AC SI) American Comm Svcs (AC SI)
HAWAII	Honolulu Oahu	Digital Transport Inc. (DTI) Digital Transport Inc. (DTI), St. of Hawaii (Oceanic Cable)	Hawaii	Time Warner
IDAHO				
ILLINOIS	Chicago (Metro) DeKalb	MFS, TCC Time Warner	Metropolis	Kentucky DataLink
INDIANA	Indianapolis Terre Haute Lafayette	City Signal, Time Warner, Indiana Digital Time Warner, Indiana Digital Indiana Digital		
IOWA	Cedar Rapids Des Moines Iowa City	MCLEOD Telemanagement IOR Telecom, MWR, MFS MCLEOD Telemanagement		
KANSAS	Kansas City Wichita	MFS, Kansas City Fibernet Multimedia Hyperion		
KENTUCKY	Calvert City Castletown Cave City Lexington Louisville Madisonville Paducah Princeton	Kentucky Data Link Kentucky Data Link Lexate Kentucky Data Link, Quest Eng. IntelCom Group/Mid-Am. Cable, America Kentucky Data Link Lexate, Kentucky Data Link Kentucky Data Link	Louisville State of Ky.	IntelCom Corp./Mid-Am. Cable, AC SI Louisville Lightwave, Kentucky Fiberlink MFS

Table 1
Competitive Access Providers:
Summary by State and City as of May 1994

STATE	EXISTING CITY/AREA	CAP	PLANNED CITY/AREA	CAP
LOUISIANA	New Orleans	Two-Way Communications, Locate	Baton Rouge Lafayette New Orleans Shreveport	American Comm. Svcs. (ACS) American Comm. Svcs. (ACS) Am. Com. Svcs. (ACS), MCI Metro/AT&T, LA Fiber American Comm. Svcs. (ACS)
MAINE			Southern Area	TCG
MARYLAND	Baltimore Hagerstown	MFS, Balt. Gas & Elec., Locate ValleyNet		
MASSACHUSETTS	Andover Boston Brockington Burlington Cambridge Dedham Easton Framingham Lawrence Lexington Lincoln Malden Marlboro Medford Natick Needham Newton North Reading Quincy Reading Somerville Springfield Waltham Wilmington Woburn	TCG MFS, TCG, Locate TCG MFS, TCG MFS, TCG TCG TCG TCG TCG MFS MFS TCG TCG TCG TCG TCG TCG MFS, TCG TCG MFS, TCG Brooks (Fivecom) MFS, TCG TCG TCG	Boston (Metro) Eastern Mass.	Cablevision, MCI/Metro TCG, MFS

Table 1
Competitive Access Providers:
Summary by State and City as of May 1994

STATE	EXISTING CITY/AREA	CAP	PLANNED CITY/AREA	CAP
MICHIGAN	Ann Arbor Detroit Grand Rapids Lansing	City Signal TCG, City Signal City Signal City Signal	Detroit Saginaw Muskegon	MFS TCG City Signal
MINNESOTA	Minneapolis-St. Paul	MFS, FiberCom, Continental Cable		
MISSISSIPPI	Jackson	Access Transmission Svcs.	Biloxi Jackson	American Comm. Svcs. (ACS) American Comm. Svcs. (ACS)
MISSOURI	Kansas City Springfield St. Louis	MFS, Kansas City Fibernet Springfield Fibernet MFS, TCG, Fibernet, MCI Metro, F.A.S.T.	St. Louis State of Mo.	FiberNet TCG
MONTANA				
NEBRASKA	Kearney Omaha	Cable One TCG, MFS		
NEVADA	Las Vegas	City Signal		
NEW HAMPSHIRE	Portsmouth	TCG	Nashua Portsmouth Southern Area	MFS TCG MFS
NEW JERSEY	Camden Northern N.J.	Eastern TeleLogic MFS, TCG, MH Lightnet, Locate	Southern N.J.	TCG
NEW MEXICO	Hobbs	Eastern New Mexico Corp.	Albuquerque State of N.M.	IntellCom Jones Lightwave

Table 1
Competitive Access Providers:
Summary by State and City as of May 1994

STATE	EXISTING CITY/AREA	CAP	PLANNED CITY/AREA	CAP
NEW YORK	Albany Buffalo Long Island Mamaroneck New York (Metro) Rochester Syracuse Westchester White Plains Yonkers	MFS, Hyperion MFS, Hyperion, Lucate TCG, Cablevision, Lucate, MFS TCG MFS, TCG, Lucate, Cablevision ACC Corp. Hyperion TCG MFS, TCG, NNI MFS	New York (Metro)	MC I/Metro
NORTH CAROLINA	Cary Charlotte Durham Raleigh	FiberSouth IOG-Access Svcs., Lucate, Charlotte, AXS FiberNet FiberSouth	Asheville Charlotte Currituck County Durham Greensboro Raleigh Research Tri. Park State of N.C. Winston-Salem	American Comm. Svcs. (ACSI) ACSI, Time-Warner Cox FiberNet FiberNet, Am. Lightwave, FiberSouth, Time-Warner American Comm. Svcs. (ACSI), TCG Time-Warner, FiberNet FiberNet, Am. Lightwave, FiberSouth Jones Lightwave American Comm. Svcs. (ACSI)
NORTH DAKOTA				
OHIO	Cincinnati Cleveland Columbus Dayton Lima Mansfield Marysville Mason/Lebanon Warren	FiberNet, IntelCom, City Signal, Time-Warner, WU-ATS, Ohio Links Intelcom Group City Signal, Time Warner Intelcom Group Time-Warner Adelphia Time-Warner Coaxial Cable TCI	Akron Butler Clark Cleveland Cleveland-Cuyahoga Cincinnati Columbus-Franklin Crawford Delaware Erie Geauga Greene Hamilton	IntelCom IntelCom IntelCom TCG MFS, City Signal, IntelCom, Time-Warner, TCG IntelCom, Ohio Links, City Signal, Time Warner, WU-ATS MFS, City Signal, FiberTel, Time-Warner, W U Cablevision FiberTel, Time-Warner Cablevision Cablevision City Signal City Signal, FiberNet, IntelCom, Western Union

Table 1
Competitive Access Providers:
Summary by State and City as of May 1994

STATE	EXISTING CITY/AREA	CAP	PLANNED CITY/AREA	CAP
			Huron	Cablevision
			Lake	Cablevision
			Lorain	Cablevision
			Lucas	City Signal, IntelCom
			Mahoning	City Signal, IntelCom
			Medina	Cablevision, IntelCom
			Montgomery	City Signal, IntelCom
			Montroue	IntelCom
			Morrow	Cablevision
			Oxford	Locate
			Portage	IntelCom, Cablevision
			Richland	Cablevision
			Summit	IntelCom, Time-Warner, Cablevision
			Tipp City	Time-Warner, IntelCom
			Toledo	IntelCom
			Troy	Time-Warner, IntelCom
			Trumbull	City Signal, IntelCom
			Union	Fibertel
			Wayne	Cablevision
			Wood	City Signal, IntelCom
OKLAHOMA	Broken Arrow Oklahoma City Tulsa	PSO Metrolink Cox Cable, Dubsun Fiber PSO Metrolink		
OREGON	Beaverton Portland	ELectric Lightwave, PacNet, FiberNet ELectric Lightwave, PacNet	Beaverton	MFS
PENNSYLVANIA	Allegheny County Beaver County Carlisle Chambersburg Pittsburgh Philadelphia	TCG, MFS, Penn Access TCG Valletnet Valletnet MFS, TCI/Penn Access, Locate MFS, Eastern TeleLogic, Locate	Erie	Penn Access

Table 1
Competitive Access Providers:
Summary by State and City as of May 1994

STATE	EXISTING CITY/AREA	CAP	PLANNED CITY/AREA	CAP
RHODE ISLAND	State of R. I.	Locate	Providence	MFS, TCG, Jones, Brooks
SOUTH CAROLINA	Cayce	MPX	Charleston	American Comm. Svcs. (ACSI), RCG
	Charleston	PalmettoNet	Columbia	American Comm. Svcs. (ACSI), RCG
	Columbia	MPX, PalmettoNet	Greenville	American Comm. Svcs. (ACSI), RCG
	Fluorence	PalmettoNet	Spartanburg	RCG
	Myrtle Beach	PalmettoNet		
	St. George	PalmettoNet		
	Sumter	PalmettoNet		
	Waterboro	PalmettoNet		
	Yemassee	PalmettoNet		
SOUTH DAKOTA				
TENNESSEE	Memphis Nashville	City Signal City Signal, IOG-Access Svcs.	Chattanooga Knoxville Memphis Nashville	American Comm. Svcs. (ACSI) American Comm. Svcs. (ACSI) Time-Warner, Access Transmission Svcs. Hyperion, ACSI, Access Transmission Svcs.
TEXAS	Addison	MFS	Denton	MFS, TCG
	Austin	Time-Warner	Houston	Time-Warner
	Carrollton	MFS, TCG	Louisville	MFS
	Dallas	MFS, TCG, MCI Metro, FiberSouth, Phonoscope Com.		
	Farmers Branch	MFS		
	Houston	MFS, Phonoscope, TCG, MCI Metro, FiberSouth		
	Irving	TCG, MFS		
	Plano	MFS, TCG		
	Richardson	MFS		
	San Antonio	FiberSouth		
UTAH	Salt Lake City	Qwestar Telecom, IntelCom	Salt Lake City	Electric Lightwave
VERMONT			State of Vt.	Hyperion

Table 1
Competitive Access Providers:
Summary by State and City as of May 1994

STATE	EXISTING CITY/AREA	CAP	PLANNED CITY/AREA	CAP
VIRGINIA	Blacksburg	ValleyNet	Chesterfield Hampton Rds State of Va.	Virginia Metroltel Cox FiberNet Jones Lightwave
	Bluefield	ValleyNet		
	Charlottesville	ValleyNet		
	Covington	ValleyNet		
	Edinburg	ValleyNet		
	Harrisonburg	ValleyNet		
	Lexington	ValleyNet		
	Norfolk	Cox FiberNet		
	Radford	ValleyNet		
	Richmond	AlterNet of Virginia, Hyperion, Virginia Metroltel		
	Roanoke	ValleyNet		
	Staunton	ValleyNet		
	Stephens City	ValleyNet		
	Troutville	ValleyNet		
	Virginia Beach	Cox FiberNet		
	Waynesboro	ValleyNet		
	Wytheville	ValleyNet		
WASHINGTON	Issaquah	TCG	Everett Kirkland	TCG TCG
	Kennewick	Northwest Microwave		
	Seattle	FiberNet, Electric Lightwave, TCG, Digital Direct		
		Northwest Microwave, PacNet, MFS		
	Spokane	Electric Lightwave		
	Wenatchee	Northwest Microwave		
WEST VIRGINIA	Martinsburg	ValleyNet		
WISCONSIN	Milwaukee	TCG		
WYOMING				

Source: Bellcore, 1994

**Bringing
People
Together**

Anytime



Anywhere

Changes in our competitive landscape

Multimedia networks will lead to new ways of communicating and computing and new forms of education and entertainment.

Telephone and cable television firms are forming alliances to speed their delivery of multimedia services to the home. A notable example is the proposed merger of Bell Atlantic Corp. and Tele-Communications Inc. Focusing on the programming to be provided by these networks, QVC Network Inc. and Viacom Inc. were competing to acquire Paramount Communications Inc., the entertainment company, at year-end.

Several firms are announcing major new networks. Pacific Bell's planned \$16 billion network is a good example. AT&T, as a supplier of network systems and services and a provider of multimedia products and services, will be a supplier as well as a customer and competitor of these firms.

The new alliances and networks, increas-

ing competition, and changes in technology and regulation are all leading to more choices for customers. These trends should also lower our costs to reach customers over local networks. Success in this new multimedia environment will depend on innovation and giving customers value for their purchases.

Competition is global and increasingly between multinational firms with partners from different nations.

To offer one-stop shopping for telecommunications services to companies that do business globally, we formed WorldPartners with Kokusai Denshin Denwa Co. Ltd. of Japan and Singapore Telephone. We intend to also find European partners or build networks there ourselves, spending as much as \$350 million. British Telecom Plc and MCI Communications Corp. (MCI) also formed an alliance, as did Germany's Deutsche Bundespost Telekom and France Telecom.

British Telecom applied to the FCC to

provide long distance service in the U.S. We applied to provide service in the U.K. and also asked the FCC to prevent non-U.S. carriers from operating in the U.S. unless we can compete in their home markets.

We extended our rivalry with MCI to Canada through an alliance with Unitel Communications, Inc. MCI is allied with the Stentor consortium there. Mexico will open long distance services to competition from U.S. carriers in 1996 as part of the North American Free Trade Agreement (NAFTA). NAFTA should also aid our sales of network systems to Mexico.

In 1993 we signed an important agreement with the People's Republic of China, where we will compete with Canada's Northern Telecom Ltd., France's Alcatel Alsthom S.A., Sweden's Telefon AB L.M. Ericsson and possibly others. This past year we also won our first contract to supply switching equipment to Japan, a market that is dominated by Fujitsu Ltd. and NEC Corp.

Cost controls, coupled with our revenue growth, caused our gross margin percentage to improve the past two years. Operating expenses grew 7.5% in 1993, mainly because of marketing and sales efforts for telecommunications services and provisions for business restructuring. Such marketing and sales expenses also rose in 1992, but total operating expenses declined because of restructuring and other charges in 1991.

To increase our presence outside the U.S., we are hiring employees, building plants and forming joint ventures. However, during the past two years the economies of Europe and Japan were very weak and we needed to restructure some of our overseas operations. For these reasons we reported an operating loss in our operations outside the U.S. both years. Nevertheless, we continue to believe that these operations and markets provide excellent opportunities for future growth in revenues and earnings.

All our business units face stiff competition. Prices and technology are under continual pressure. Such market conditions, along with a slow-growing economy, make the ongoing need for active cost controls even more urgent. Managers must continuously assess their resource needs and consider further steps to reduce costs. Sometimes these steps will include consolidating facilities, disposing of assets, reducing work force or withdrawing from markets.

Like other manufacturers, we use, dispose of and clean up substances that are regulated under environmental protection laws. We also have been named a potentially responsible party (PRP) at a number of Superfund sites. At most of these sites, our share is very limited and there are other PRPs who can be expected to contribute to the cleanup costs. We review potential cleanup costs and costs of compliance with environmental laws and regulations regularly. Using engineering estimates of total cleanup costs, we estimate our potential liability for all currently and previously owned properties where some cleanup may be required, includ-

ing each Superfund site where we are named a PRP. We provide reserves for these potential costs and regularly review the adequacy of our reserves. In addition, we forecast our expenses and capital expenditures for existing and planned compliance programs as part of our regular corporate planning process. Despite these procedures, it is very difficult to estimate the future impact of actions regarding environmental matters, including potential liabilities to us. However, we believe that cleanup costs and costs related to environmental proceedings and ongoing compliance with present laws will not have a material effect on our future expenditures, earnings or competitive position beyond that provided for at year-end.

Many of our employees are represented by unions. In 1992 AT&T management and union bargainers negotiated innovative labor agreements with provisions for employees' career security and well-being as well as higher wages and increased employee ownership of the business. Under the wage portion of the agreements, employees at the top of each wage schedule received increases of 4% in 1992 and 3.9% in 1993, and will receive an increase of 3.9% in 1994. Pensions are increased by 13% for those who retire after May 31, 1992. The agreements also retained management flexibility to react to business conditions while enhancing education, training and job-changing opportunities for employees.

Telecommunications Services

These revenues grew 0.7% in 1993 and 2.0% in 1992, driven by volume growth. Billed minutes for switched services rose 5.5% in 1993 and 6% in 1992, paced by business services. Volume growth exceeds revenue growth as customers select more of the higher-value, lower-priced services made possible by our greater efficiency. This shift in the mix of services that customers select lowers average per-minute revenues. In the latter

half of 1993 we raised some of our prices and fees — about \$500 million on an annual basis. These increases were primarily for services where customer demand is not very sensitive to price. In late December we filed for 1994 price increases of \$750 million on an annual basis and also announced a new discount plan for high-volume callers. We expect the effects on revenues of this discount plan and those 1994 price increases to offset each other. In January 1994 we also proposed to raise prices for some business services by \$165 million on an annual basis.

We expect improving economic conditions and higher prices to cause our telecommunications services to grow faster in 1994 than in 1993.

Telecommunications Services

Dollars in millions	1993	1992	1991
Total revenues	\$39,863	\$39,580	\$38,805
Costs			
Access and other interconnection costs	17,709	18,132	18,395
Other costs	7,009	7,135	6,881
Total costs	24,718	25,267	25,276
Gross margin	\$15,145	\$14,313	\$13,529
Gross margin percentage	38.0%	36.2%	34.9%

This past year we announced AT&T *TrueVoice*[®] service, a new, patented technology to improve the sound quality on calls placed within the continental U.S. and Canada. We expect to complete the national rollout by April 1994 so that AT&T *TrueVoice* service will operate automatically on every call placed on our network. We believe it gives us a competitive advantage that will help us attract and keep customers.

Markets for telecommunications services are extremely competitive. AT&T is the market leader, but we saw another small decline in our market share this past year. Our own data and the data of the Federal Communications Commission (FCC) show that our market share is about 60% of the minutes billed for inter-LATA switched services. We withstood an important challenge to our market position when the FCC allowed customers of inbound "800" services to switch carriers without penalties for a 90-day period in 1993. We retained 95% of our 531 largest customers and won contracts away from our competitors. Many of these customers signed long-term contracts, so we emerged from this "Fresh Look" period with signed contracts having a greater dollar value than those we had before.

The FCC and state utility commissions regulate our services, and many more rules are imposed on us than on our competitors. Because of fierce competition and rapid changes in technology and customer needs, the FCC adopted "price caps" in 1989, increasing our flexibility to respond to those market conditions. Since then, the FCC has removed all limits on our prices for many business services. However, the FCC decided in June 1993 to continue price caps for residential services instead of reducing regulation of AT&T.

Total costs of telecommunications services declined this past year; costs in 1992 were about level with those in 1991. Despite higher calling volumes, access and other interconnection costs dropped both years largely

because of lower prices from telephone companies to reach customers over local networks. The 1993 decrease in other costs was mainly due to lower uncollectibles. We also had lower depreciation expense because we reduced plant additions. The 1992 increase in other costs was associated with higher service volumes. We also had higher uncollectibles because of fraud and the weak economy.

Products and Systems

Despite a weak global economy and intense price competition, our sales grew 8.0% in 1993 and 3.3% in 1992. Sales outside the U.S. grew at a faster rate than U.S. sales and contributed more than half the increase in both years. Based on our current expectations for the global economy, we expect greater sales growth in 1994.

Products and Systems

Dollars in millions	1993	1992	1991
Revenues			
Telecommunications network products and systems	\$ 8,345	\$ 7,691	\$ 7,490
Computer products and systems	3,597	3,433	3,667
Communications products and systems	3,438	3,098	2,852
Microelectronics products, special-design products for U.S. government, and other ^a	2,418	2,251	1,932
Products and systems	17,798	16,473	15,941
Total costs	10,809	9,846	9,134
Gross margin	\$ 6,989	\$ 6,627	\$ 6,807
Gross margin percentage	39.3%	40.2%	42.7%

^a"Other" is composed principally of media, predominantly for use with automated teller machines and point-of-sale equipment, and business forms.

Revenues from sales of telecommunications network products and systems grew 8.5% in 1993 and 2.7% in 1992. The 1993 increase came chiefly from higher sales of wireless products, switching equipment and operations systems. In 1992 the growth came mainly from higher sales of cable systems and switching equipment. Sales outside the U.S. rose both years while U.S. sales grew in 1993. Orders were heavily weighted toward the 1991 start of a seven-year, \$600 million contract to supply GTE Corporation with wireless equipment, so U.S. sales were lower in 1992.

Many countries are modernizing their communications networks. This will lead to many sales opportunities in the years ahead. We expect to partner with these countries because we provide a full range of integrated products and services and, sometimes, assistance in financing their equipment purchases.

In February 1993 we signed an agreement with the State Planning Commission of the People's Republic of China. Under that proposed partnership, we expect to engage in local research, development and manufacturing of central office switching equipment, cellular communications systems and telecommunications networks for use in that country.

An Overview of Our Business Operations

Our main business is meeting the communications and computing needs of our customers by using networks to move and manage information. We divide the revenues and costs of this business into three categories on our income statement: *telecommunications services, products and systems, and rentals and other services*. AT&T Capital Corporation (AT&T Capital) and AT&T Universal Card Services Corp. (Universal Card) are partners with our communications and computing business units as well as innovators in the financial services industry. We include their revenues and costs in a separate category on our income statement: *financial services and leasing*.

Competition in communications and computing is global and increasingly involves multinational firms and partners from different nations. To increase our global presence, we are hiring, building facilities and investing outside the U.S. We believe these commitments of resources are necessary to be successful in these markets. However, the economies of Europe and Japan were very weak in 1992 and 1993, and we restructured some operations in those areas. For these reasons we reported operating losses, in total, for the past three years in our units outside the U.S. Nevertheless, we continue to believe that these operations and markets provide excellent opportunities for future growth in revenues and earnings.

All our business units face stiff competition. Prices and technology are under continual pressure. Such market conditions make the ongoing need for cost controls even more urgent. Managers must continuously assess their resource needs and consider further steps to reduce costs, which could include consolidating facilities, disposing of assets, reducing workforce or withdrawing from markets.

In 1993 one of our business units, AT&T Global Information Solutions Company, offered an early retirement program and a voluntary separation program to its U.S.-based employees. About 2,200 employees accepted the early retirement offer, and the total workforce at the unit has declined by more than 10% since year-end 1993. We also provided reserves in 1993 to restructure and centralize support services for telecommunications services and for other restructuring activities. In total we provided \$498 million before taxes in 1993 for restructuring activities.

At year-end 1994 reserves for all restructuring activities amounted to about \$900 million, most of which relates to net lease payments to be made over the life of the related leases. We believe the balance of reserves is adequate for the completion of planned activities to improve efficiency

as part of our commitment to meet intense competition.

Like other manufacturers, we use, dispose of and clean up substances that are regulated under environmental protection laws. We also have been named a potentially responsible party (PRP) at a number of Superfund sites. At most of these sites, our share is very limited and there are other PRPs who can be expected to contribute to the cleanup costs. We review potential cleanup costs and costs of compliance with environmental laws and regulations regularly. Using engineering estimates of total cleanup costs, we estimate our potential liability for all currently and previously owned properties where some cleanup may be required, including each Superfund site where we are named a PRP. We provide reserves for these potential costs and regularly review the adequacy of our reserves. In addition, we forecast our expenses and capital expenditures for existing and planned compliance programs as part of our regular corporate planning process. Despite these procedures, it is very difficult to estimate the future impact of actions regarding environmental matters, including potential liabilities. However, we believe that cleanup costs and costs related to environmental proceedings and ongoing compliance with present laws will not have a material effect on our future expenditures, annual consolidated financial statements or competitive position beyond that provided for at year-end.

Many of our employees are represented by unions. In 1995 we will negotiate new labor agreements because the 1992 contracts are due to expire on May 27.

Telecommunications Services

These revenues, which include wireless services revenues, grew 4.3% in 1994 and 1.6% in 1993. Volume growth, caused by market share gains among residential customers, strong demand from business customers, new cellular customers and the improved economy, fueled the faster growth in 1994.

Wireless services revenues, including cellular, messaging and air-to-ground services revenues, grew to \$2,280 million in 1994 from \$1,760 million in 1993 and \$1,387 million in 1992, primarily because of the added traffic coming from new customers. Cellular customers served by companies in which AT&T has or shares a controlling interest increased to 4.0 million at year-end 1994, from 3.0 million at the end of 1993 and 2.2 million at the end of 1992.

Billed minutes for switched long distance services rose more than 7.5% in 1994 compared with 5.5% in 1993. Volume growth exceeds revenue growth because many customers are selecting higher-value, lower-priced

Reporting on the Merger

To complete the merger, McCaw's owners exchanged their McCaw stock for 197.5 million shares of newly issued AT&T stock. At the market closing price for AT&T stock on September 19, the official day of the merger,

that exchange was worth about \$11.5 billion.

We accounted for the merger as a pooling of interests. That means we combined the financial statements for the two companies. We did, however, take out the business

between the companies just as we remove dealings between other AT&T units. Now all our financial information shows combined amounts as if we had always been one company.

Eleven Year Summary of Selected Financial Data

(unaudited)
AT&T Corp. and Subsidiaries

Dollars in millions (except per share amounts)

	1994	1993*	1992	1991*	1990	1989	1988*	1987	1986*	1985	1984
Results of Operations											
Total revenues	\$75,094	\$69,351	\$66,647	\$64,455	\$63,228	\$61,604	\$62,067	\$60,726	\$61,975	\$63,159	\$60,326
Research and development expenses	3,110	3,111	2,924	3,114	2,935	3,098	2,988	2,810	2,599	2,527	2,477
Operating income (loss)	8,030	6,568	6,628	1,570	5,622	4,931	(2,381)	4,164	978	3,562	2,825
Income (loss) before extraordinary item and cumulative effects of accounting changes	4,710	3,702	3,442	171	3,475	2,820	(1,527)	2,374	609	1,856	1,712
Net income (loss)	4,710	(5,906)	3,442	171	3,666	2,820	(1,527)	2,374	434	1,856	1,712
Earnings (loss) per common share before extraordinary item and cumulative effects of accounting changes	3.01	2.39	2.27	0.12	2.38	1.95	(1.06)	1.61	0.36	1.21	1.14
Earnings (loss) per common share	3.01	(3.82)	2.27	0.12	2.51	1.95	(1.06)	1.61	0.24	1.21	1.14
Dividends declared per common share	1.32	1.32	1.32	1.32	1.32	1.20	1.20	1.20	1.20	1.20	1.20
Assets and Capital											
Property, plant and equipment-net	\$22,035	\$21,015	\$20,798	\$19,887	\$19,536	\$17,653	\$16,886	\$22,159	\$22,247	\$23,182	\$22,180
Total assets	79,262	69,393	66,104	62,071	57,036	45,228	41,945	45,583	44,305	44,824	43,461
Long-term debt including capital leases	11,358	11,802	14,166	13,682	14,579	10,116	10,172	9,060	8,234	8,104	8,963
Common shareowners' equity	17,921	13,374	20,313	17,973	17,928	15,727	13,694	16,913	15,849	16,945	15,852
Net capital expenditures	4,853	4,296	4,328	4,376	4,369	4,162	4,528	3,936	3,977	4,303	3,685
Other Information											
Operating income (loss) as a percentage of revenues	10.7%	9.5%	10.0%	2.4%	8.9%	8.0%	(3.8)%	6.9%	1.6%	5.6%	4.7%
Net income (loss) as a percentage of revenues	6.3%	(8.5)%	5.2%	0.3%	5.8%	4.6%	(2.5)%	3.9%	0.7%	2.9%	2.8%
Return on average common equity	29.5%	(47.1)%	17.6%	0.9%	21.2%	19.1%	(8.9)%	14.3%	2.0%	10.6%	10.4%
Data at year-end:											
Stock price per share	\$50.25	\$52.50	\$51.00	\$39.125	\$30.125	\$45.50	\$28.75	\$27.00	\$25.00	\$25.00	\$19.50
Book value per common share	\$11.42	\$ 8.65	\$13.31	\$12.05	\$12.33	\$10.92	\$ 9.57	\$11.87	\$11.04	\$11.73	\$11.19
Debt ratio	58.3%	64.4%	53.1%	54.8%	53.5%	45.0%	45.8%	38.4%	39.6%	39.9%	42.0%
Debt ratio excluding financial services	34.1%	49.1%	40.8%	46.0%	47.6%	39.3%	42.2%	35.2%	37.6%	38.4%	41.7%
Employees	304,500	317,700	319,000	322,300	333,400	343,000	367,400	366,200	379,900	400,400	427,800

*1993 data reflect a \$9.6 billion net charge for three accounting changes.

1991 data reflect \$4.5 billion of business restructuring and other charges.

1988 data reflect a \$6.7 billion charge due to accelerated digitization of the long distance network.

1986 data reflect \$3.2 billion of charges for business restructuring, an accounting change and other items.

services made possible by our increasing efficiency. Although we raised prices on basic services over the past two years, the shift in the mix of services that customers selected reduced average per-minute revenues in 1994 and 1993.

AT&T True USA™ Savings and AT&T True Rewards™ offer savings and other benefits to residential customers based on their calling volumes. We also rolled out AT&T TrueVoice® service, a patented technology to improve the sound quality on calls placed within the continental U.S. and Canada. Other offers and calling plans now share this theme of offering customers true value. These efforts helped us retain and win back residential customers in 1994, allowing us to recapture some market share for the first time since the breakup of the Bell System in 1984.

We expect continuing strong volume growth in 1995, leading to further growth in telecommunications services revenues. Several of our initiatives will enhance future network capabilities for communications and computing. For example, since late 1994, Network Notes™ has enabled customers to access applications and information hosted on the AT&T network that are compatible with the popular Notes groupware software from Lotus Development Corp. Beginning in 1995, Netware Connect™ services, based on popular networking software from Novell, Inc., will enable users to link computers or use computer-based services through the AT&T network. Through our relationship with Xerox Corp., users will be able to store and transmit high-quality production documents through our network. Our WorldWorx™ service, developed in cooperation with several major equipment vendors, will permit interactive, multipoint video and data calls. Customers using our PersonaLink™ service may program "intelligent agents" to sort through, retrieve and monitor desired information on networks.

Total cost of telecommunications services declined both years despite higher volumes, in part because of reduced prices for connecting customers through local networks. In addition, we improved our efficiency in network operations,

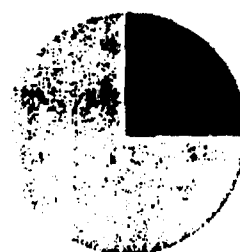
engineering and operator services. With lower costs and higher revenues, the gross margin percentage rose to 41.8% in 1994 from 39.0% in 1993 and 37.2% in 1992.

Products and Systems

Expansion abroad and into new customer segments, improved global economic conditions and major contract wins raised sales by 18.1% in 1994 and 8.1% in 1993 despite stiff price competition. Sales outside the U.S. grew at a faster rate than U.S. sales and were responsible for more than half the growth both years. We expect sales under major contracts and the continuing economic recovery outside the U.S. in 1995 to pave the way for further growth in revenues.

1994 Sources of Revenue

As Percentages of Total Revenue



Markets and competition in the information industry are increasingly global in scope. Some of the fastest growing markets are outside the U.S.

- 18% ■ International Revenue from operations located in other countries
- 4% ■ International Revenue from U.S. operations (international telecommunications services, and exports)
- 78% ■ U.S. Revenues

Revenues from sales of telecommunications network products and systems grew 17.3% in 1994 and 8.5% in 1993. The 1994 increase reflected higher sales across this product line, particularly in switching and transmission systems and wireless products. About \$243 million of switching revenues in 1994 came from consolidating A.G. Communication Systems Corporation because AT&T raised its ownership to 80%. The 1993 increase came chiefly from higher sales of wireless products, switching equipment and operations systems. For the last two years, sales grew both inside and outside the U.S.

Spotlight on Some Trends in Telecommunications Services

Competition is changing.

As we look ahead, along with growing opportunities, we see more direct competition for AT&T coming from local telephone, long distance, cable television, wireless and other companies that offer network services. AT&T, as a supplier of networking systems, services and products, will be a supplier as well as a customer and competitor of these firms. There may also be other entrants from the communications and information services industries, such as providers of information systems, who will offer basic or integrated services.

Customers and competitors - present and future - are making acquisitions, merging, and forming joint ventures and alliances to expand their geographic reach, enter new markets

and gain scale. Some of the largest cable TV companies, such as Tele-Communications Inc. (TCI) and Time Warner Inc., are clustering cable systems. Cables have more capacity than current phone lines, suiting them for multimedia use. Bell Atlantic Corporation, Nynex Corporation, U.S. West, Inc. and Airtouch Communications Corp. formed an alliance of their cellular operations to gain a national presence and bid against AT&T and others for radio licenses to provide personal communications services. These licenses are being auctioned by the Federal Communications Commission to get as many as seven wireless competitors in each territory. Sprint Corporation (Sprint), which already competes in local phone service, long distance and cellular

markets, is forming a joint venture with cable companies TCI, Comcast Corp. and Cox Enterprises, Inc. to expand its presence in both local and wireless markets.

Several bills were introduced in Congress last year which would have accelerated competition for local access and phone services and permitted the Regional Bell Operating Companies (RBOCs) to offer long distance services under certain conditions. Although none of these bills was enacted, several key members of Congress have introduced or announced plans to introduce new bills during 1995 that would permit competition in local services and set conditions under which the RBOCs would be permitted to offer long distance services and manufacture equipment.

ALL THOSE LONG-DISTANCE DISCOUNTS ARE SWEET, BUT . . .

Hikes in basic rates are offsetting special deals and sending phone company revenues ever higher



INTERSTATE RATES, ALTHOUGH SHARPLY LOWER SINCE THE AT&T BREAKUP IN 1984, HAVE BEEN RISING OVER THE PAST FOUR YEARS

If you own a telephone, you probably get a lot of pitches beseeching you to switch from one deeply discounted long-distance service to another. With the intense competition among MCI's Friends & Family, AT&T's True USA Savings, and Sprint's The Most, long-distance telephone customers must be getting some great deals, right?

Not necessarily. Data compiled by the Bureau of Labor Statistics show that basic interstate long-distance rates, though down precipitously since the breakup of the Bell System in 1984, have been rising for the past four years—by nearly 10% from January, 1990, to July, 1994. The hikes offset the discount plans and, along with rising calling volume, helped the long-distance industry post a healthy 8%-plus revenue gain in the second quarter. That compares with a year-over-year gain of slightly less than 5% in 1993's second quarter. As a recent study by market researcher Yankee Group Inc. notes, carriers "seem to be funding the marketing wars lately by slowly increasing basic . . . rates."

The proof is in the Federal Communi-

cations Commission filings. In the past year, AT&T, which carries about 80% of the nation's long-distance traffic, has raised the per-minute charge for basic calls three times—by 4% in August, 1993, 6.3% on Jan. 1, and 4% on June 1. And the increases keep coming: On Aug. 29, AT&T filed a request with the FCC to raise domestic calling-card rates by an average 2.1% and international services by 1%. A month earlier, it had requested rate hikes on 800 lines and international calling-card calls.

LOCKSTEP. So what, you say—I'll just switch to MCI or Sprint. It won't save you much. MCI Communications Corp. and Sprint Corp. have raised their basic rates virtually in lockstep with AT&T. With some 85% of the long-distance market among them, the big three are unlikely to set off a genuine price war.

The three dispute the

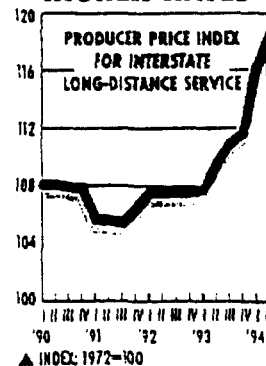
BLS findings, arguing that extensive use of discounts that range from 10% to 35% makes the basic rate irrelevant—like a car's sticker price. "Nobody, absolutely nobody, pays sticker price," asserts MCI President Gerald H. Taylor.

That's not exactly accurate. While none of the long-distance carriers reveals how many subscribers are on discount plans, Yankee Group estimates that some 11 million are enrolled in MCI's

Friends & Family, 6.5 million in AT&T's True USA Savings program, and 3 million in Sprint's The Most. Since there are more than 140 million phone lines in the U.S., it stands to reason that millions of callers, at the least, are paying sticker price.

The carriers also brandish a set of statistics showing that, overall, rates continue to decline. The true measure of the market, they say, is the

RINGING UP HIGHER RATES



average price per minute paid for long-distance service. That price, which factors in all discount plans, has declined every year for the past decade—by 41.1% in actual dollars and 63.3% when adjusted for inflation, according to AT&T.

But the average price per minute is more than just the money shelled out by consumers. It also includes the deeply discounted rates paid by corporations, which negotiate their own deals with the carriers. Still, even with steep corporate price cuts added in, the decline in the average rate is slowing. The measure fell 2.6% during the second quarter vs. a 4% drop a year earlier.

Even AT&T doesn't deny that tariff hikes are offsetting the cost of promotions. In its 1993 annual report, AT&T told of a \$750 million rate increase filed last December and a new bargain offering for high-volume callers. "We expect the effects on revenues of this discount plan and those 1994 price increases to offset each other," it said. Certainly the second-tier long-distance companies are aware of this balancing act. "The promotions may make it look like there is price competition in residential, but the fact is that the base rates have created profit margins that are much better than you get from businesses," says H. Brian Thompson, chairman of long-distance company LCI International Inc.

PROPAGANDA MILL. One of the reasons profits are better is that costs are lower. The access fees that interstate carriers pay to use local lines, which account for about 40% of their costs, have been falling steadily for years. At one time, those savings were automatically passed on to consumers. But since 1989, when the FCC allowed AT&T more flexibility in setting rates, one no longer necessarily follows the other. The change helped increase operating earnings for the second quarter by 12.4% for AT&T, 20.8% for MCI, and 33.3% for Sprint.

All of this is grist for both sides of the propaganda mill in Washington. As Congress debates an overhaul of telecommunications regulations, the local phone companies argue that they should be given entry to the long-distance market, contending there is no true competition there now. But the long-distance carriers say they are operating in one of the most competitive markets in the world. They do have one unshakable fact on their side: Interstate rates have dropped a lot further in the past 10 years than local tariffs.

So both sides continue to hit members of Congress over the heads with their rate charts. Meanwhile, what's a consumer to do? Well, when they call to enroll you in a discount plan, don't hang up.

By Catherine Arnst in New York

INFORMATION PROCESSING

A WORLD FOR THE WISE.

If you feel like your money is going nowhere, invest in Janus Worldwide Fund.

With Janus Worldwide Fund, you might buy into a technology stock in Singapore. Or a medical firm in Germany. Or a multinational company based in Sydney. Or a world of other exciting investment opportunities that helped this no-load fund achieve an average annual total return of 18.54% for the life of the fund.*

If you're interested in an investment that has the potential to really take you somewhere, here's a chance to put your money to work on a global scale.

Call or send in the coupon today for a free prospectus containing more complete information, including expenses and special risks associated with foreign investing such as currency fluctuations and political uncertainty. Please read the prospectus carefully before you invest or send money.

BECAUSE IT'S NOT HOW MUCH YOU INVEST. IT'S HOW SMART.

**JANUS
WORLDWIDE FUND**
Average Annual Total Return
for the Period Ending
June 30, 1991

ONE YEAR	17.82%
LIFE OF THE FUND	18.54%
<small>From inception - May 15, 1991</small>	



JANUS WORLDWIDE FUND

P.O. Box 173375, Denver, CO 80217-3375

1-800-525-8983 Ext. 630

*Figures are based on total return, including reinvestment of dividends and capital gains. Past performance does not guarantee future results. Your return and share price will vary and may be worth more or less at redemption than at purchase.

Funds distributed by Janus Distributors, Inc. Member NASD.

YES. I would like to know more about Janus Worldwide Fund!

Name

Address

City/State/Zip

Send to:
Janus Funds
P.O. Box 173375
Denver, CO
80217-3375
1-800-525-8983
Ext. 630

Janus Funds are no-load mutual funds.

BW 630